

COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. NO.: 4500-01
BILL NO.: HB 2036
SUBJECT: Taxation and Revenue - Income; Business and Commerce; Corporations.
TYPE: Original
DATE: March 14, 2000

FISCAL SUMMARY

ESTIMATED NET EFFECT ON STATE FUNDS			
FUND AFFECTED	FY 2001	FY 2002	FY 2003
General Revenue	(\$249,022) to (\$81,249,022)	(\$243,643) to (\$81,243,643)	(\$249,951) to (\$81,249,951)
Total Estimated Net Effect on <u>All</u> State Funds	(\$249,022) to (\$81,249,022)	(\$243,643) to (\$81,243,643)	(\$249,951) to (\$81,249,951)

ESTIMATED NET EFFECT ON FEDERAL FUNDS			
FUND AFFECTED	FY 2001	FY 2002	FY 2003
None			
Total Estimated Net Effect on <u>All</u> Federal Funds	\$0	\$0	\$0

ESTIMATED NET EFFECT ON LOCAL FUNDS			
FUND AFFECTED	FY 2001	FY 2002	FY 2003
Local Government	\$0	\$0	\$0

Numbers within parentheses: () indicate costs or losses

This fiscal note contains 5 pages.

FISCAL ANALYSIS

ASSUMPTION

Officials from the **Department of Economic Development (DED)** state this proposal raises the total amount of tax credits available for qualified investments in Missouri small businesses by \$81 million. Total State Revenues would be reduced by the \$81 million by authorizing additional tax credits for the Capital Tax Program. The DED states the proposal adds \$21 million for general use toward small businesses, increases credits for distressed communities by \$16 million to a new total of \$20 million, designates \$20 million of the increase to be used for pharmaceutical research and development, and increases the credits available for community banks and community development corporations by \$24 million to a total of \$30 million. The DED assume it is difficult to determine what the effect will be per year, and also assumed that \$100 million would be a new aggregate cap of tax credits as opposed to an annual cap, and responded based on that assumption.

The DED assumes the changes in the tax credits as a result of this proposal would be:

	<u>Before proposal</u>	<u>After proposal</u>
Capital Tax Credit	\$9 million	\$30 million
Pharmaceutical R & D	\$0	\$20 million
Distressed Communities	\$4 million	\$20 million
Community Bank or Community Development Corps.	<u>\$6 million</u>	<u>\$30 million</u>
Total credits available	\$19 million	\$100 million

For purposes of this response, the DED projects in the first year that \$5.5 million of the general/distressed credits would be issued, \$3 million of the pharmaceutical R&D and \$4 million of the CDC and Community Bank credits (or \$12.5 million of the \$81 million) would be issued. In year 2, the amounts are projected as \$10 million, \$10 million and \$6 million respectively for a total of \$26 million. Year 3 is projected at \$10 million, \$7 million, and \$6 million respectively for a total of \$23 million. The DED states that these amounts are only projections and actual credits could vary greatly.

The DED assumes the need for one (1) Economic Development Incentive Coordinator (at \$42,288 annually), four (4) Economic Development Incentive Specialist II's (each at \$36,468 annually) and two (2) Clerk Typist II's (each at \$18,564 annually) to implement this proposal. The DED also assumes the need for associated expense and equipment for the additional FTE's. Responsibilities of the FTE will include review of credit applications, public awareness, and

support.

ASSUMPTION (continued)

Oversight assumed the DED would require the four (4) additional Economic Development Specialist II's to implement this proposal with appropriate expense and equipment.

Officials from the **Department of Revenue (DOR)** state this proposal expands the Missouri small business tax credit to include investments in Missouri small businesses engaged in pharmaceutical research and development. The proposal also increases the tax credits for qualified investments in small businesses from \$19 million to \$100 million. The total amount of tax credits available for investments in Missouri small businesses in distressed communities shall not exceed \$20 million, and at least \$20 million in tax credits shall be available for investments in Missouri small businesses engaged in pharmaceutical research and development.

The DOR anticipates an increase in the number tax credits. However, the increase is unknown. The Division of Taxation, Personal Tax Bureau, will need one temporary tax season employee (a cost of \$6,067) for every 130,000 credits filed with this credit (key entry) and one Tax Processing Tech I for every 2,000 credits claimed (processing). The Personal Tax Bureau will also need one Tax Processing Tech I for every 30,000 additional errors generated. The Division of Taxation, Business Tax Bureau, will need one Tax Processing Tech I for every 3,680 credits received.

Oversight assumes the Department of Revenue could request additional FTE to process the additional tax credits if the need arises, but for purposes of this fiscal note, the DOR is assumed to have no additional costs from this proposal.

Officials from the **Office of Administration, Budget and Planning** deferred to the Department of Economic Development for an estimate of fiscal impact.

Officials from the **Office of the Secretary of State** assume this proposal will not fiscally impact their agency.

Oversight assumes the proposed legislation increases the total cap for tax credits for qualified investments in small businesses to \$100 million and also changes the total from an aggregate cap to an annual cap.

This proposal would result in a decrease in Total State Revenues.

<u>FISCAL IMPACT - State Government</u>	FY 2001 (10 Mo.)	FY 2002	FY 2003
GENERAL REVENUE FUND			
<u>Costs</u> - Department of Economic Development			
Personal Service (4 FTE)	(\$124,549)	(\$153,257)	(\$157,088)
Fringe Benefits	(\$38,299)	(\$47,126)	(\$48,305)
Expense and Equipment	<u>(\$86,174)</u>	<u>(\$43,260)</u>	<u>(\$44,558)</u>
Total Costs - <u>DED</u>	(\$249,022)	(\$243,643)	(\$249,951)
 <u>Loss</u> - Tax credits to Missouri small businesses	 \$0 to <u>(\$81,000,000)</u>	 \$0 to <u>(\$81,000,000)</u>	 \$0 to <u>(\$81,000,000)</u>
 ESTIMATED NET EFFECT ON GENERAL REVENUE FUND	 (\$249,022) to <u>(\$81,249,022)</u>	 (\$243,643) to <u>(\$81,243,643)</u>	 (\$249,951) to <u>(\$81,249,951)</u>

<u>FISCAL IMPACT - Local Government</u>	FY 2001 (10 Mo.)	FY 2002	FY 2003
	\$0	\$0	\$0

FISCAL IMPACT - Small Business

A direct fiscal impact to small businesses that qualify for the additional tax credits would be expected as a result of this proposal.

DESCRIPTION

This proposal provides preferences for small business investment tax credits for Missouri small businesses engaged solely in pharmaceutical research and development. The bill:

- (1) Includes limited liability companies as qualified investors for purposes of receiving small business investment tax credits;
- (2) Allows qualified investors in Missouri small businesses engaged solely in pharmaceutical research and development to receive a 60% tax credit versus a 40% tax credit and requires the tax

credit to be certified within 2 years from the date of investment;

DESCRIPTION (continued)

(3) Increases the total statewide credits for investment into all qualified Missouri small businesses from \$20 million to \$100 million per year and increases the minimum statewide credits to be certified for Missouri small businesses located in distressed communities and businesses engaged solely in pharmaceutical research and development from \$4 million to \$20 million per year;

(4) Exempts investments made in Missouri small businesses engaged solely in pharmaceutical research and development from the minimum of \$1,500 and the maximum aggregate of \$100,000 per business in qualifying for the tax credits;

(5) Requires the Director of the Department of Economic Development to give preference to investments made in Missouri small businesses engaged solely in pharmaceutical research and development; and

(6) Removes the Secretary of State from the administration of the application of the tax credits.

This legislation is not federally mandated, would not duplicate any other program and would not require additional capital improvements or rental space.

SOURCES OF INFORMATION

Department of Economic Development
Office of Administration - Budget and Planning
Department of Revenue
Office of the Secretary of State



Jeanne Jarrett, CPA
Director
March 14, 2000

L.R. NO. 4500-01
BILL NO. HB 2036
PAGE 6 OF 5
March 14, 2000